



Appendix B: Air Service Initiatives in Other States

Several states have undertaken varying approaches to assist airports with air service retention and development. These programs have had both positive and negative results and are summarized below.

Arizona: SCASDP and EAS Program

Arizona has four airports that participate in the federal Essential Air Service (EAS) program. Arizona's EAS airports have experienced a significant decline in passenger activity since the initiation of code-sharing with US Airways in the 1990s. Service was formerly operated on behalf of America West by Mesa Airlines. With declining enplanement levels and an inability to capture the attention of their incumbent airline to address their issue, several communities came together to seek changes in Arizona's rural air service.

In June 2003, the Arizona Department of Transportation (ADOT) submitted a proposal to the US DOT as part of the FY 2003 Small Community Air Service Development Program. This proposal was selected for a grant award in October 2003. ADOT's proposal called for combining service for the four EAS communities and adding a fifth community to be funded through SCASDP. The intent was to then solicit a single carrier to serve all five communities. It was thought that by having one airline serving all five communities and with that carrier reporting to ADOT, that the communities would have more leverage working with the airline. ADOT contributed \$300,000 to the program and agreed to serve as the sponsor. In this role, ADOT would work with the selected airline and the communities to ensure the program was operated in an efficient and cost-effective manner. In addition to combining the funding for service guarantees, the proposal called for marketing funds and the creation of a carrier incentive program to help increase passenger levels at all five of the airports.

The first step in the process was to develop a request for proposals from interested carriers. This process was very involved as it required approval by the US DOT, the Arizona Attorney General's Office, and ADOT. Once solicited, proposals were received from four airlines. These proposals were carefully reviewed. It was determined that two of the carriers met the needs of the communities. "Best and final" offers were solicited from these two carriers. Great Lakes was selected to serve the five communities and initiated service to the first community in March 2005. The success of the program was mixed. Two of the airports expressed displeasure with the service and the other three airports experienced growth. Air service to the fifth non-EAS community, Sierra Vista, was discontinued after funding from the Small Community Grant was expended.

Indiana: Intrastate Air Service Incentives

Recognizing the importance of air service to the state capitol, Indiana passed legislation in 2007 to grant a 100 percent property tax exemption for any carrier that provides intrastate air service between unserved cities and Indianapolis. The state hoped to reduce the risk for a start-up carrier by providing substantive incentives. The stated noted that these incentives were vital to attract a carrier and return service to communities without service.



Air service between South Bend and Indianapolis and Evansville and Indianapolis was restored by Cape Air in November 2007. This service was restored the state property tax incentives and a \$1 million US DOT Small Community Air Service Development grant. Cape Air is using nine-seat Cessna 402s to provide four weekday departures from Evansville to Indianapolis and five weekday departures between South Bend and Indianapolis. Since this service has recently been restored, its success cannot yet be measured.

Maryland: Regional Air Service Development Program

In July 2000, Maryland passed a law that allowed the state to subsidize new air service in order to establish an intrastate route structure. The goal was to create a network that would connect underserved areas of the state with Maryland's largest airport, Baltimore/Washington International Airport. The state appropriated \$4.25 million to subsidize intrastate air service for a 2-year period. Hagerstown and Cumberland were chosen to participate in the program. The communities did not contribute matching funds. Due to the small size of the markets, it was recommended by the state that an 8-seat aircraft be used to serve the markets. However, the communities chose to use a carrier with 19-seat aircraft because they feared that smaller aircraft would not be acceptable to travelers.

Maryland Aviation Administration selected Pan Am Clipper Connection carrier Boston-Maine Airways to provide service to connect Hagerstown and Cumberland with Baltimore/Washington International. Boston-Maine began operations in December 2001 with 19-seat Jetstream J31 aircraft. The carrier provided three daily weekday flights and two daily flights on weekends. Flights originated in Cumberland, stopped in Hagerstown, and went on to Baltimore/Washington International.

The subsidized service ended in June 2003, 18 months after it was started and the \$4.25 million was totally expended. The flights drew an average of two passengers from Cumberland and Hagerstown aboard each 19-passenger plane. This level was far below the 45 percent passenger load factor needed for the carrier to break even. The airports cited two reasons for the low usage of the service: 1.) Pan Am's lack of a codeshare agreement with a major carrier at Baltimore/Washington International and 2.) the airline was not part of the national airline reservation system, making it difficult to book tickets through a travel agent or on travel internet sites. The GAO noted another reason for low enplanements, included the lack of community involvement in supporting the service.

New Mexico: Air Service Assistance Program

In 1999, the New Mexico legislature appropriated \$500,000 to create an Air Service Assistance Program. By 2002, a total of \$900,000 was appropriated by the state legislature. The program has been reauthorized through 2007. This program was designed to provide new and/or improved regional air service between New Mexico's small communities and hub airports in the Southwest. Major elements of this program included:

Two or more eligible recipients could submit a single application to the Aviation Division designating a single eligible recipient as the lead fiscal agent to administer the grant. The maximum single award was \$200,000. Other stipulation for grant awards included the following:



- Eligible recipients need to provide a minimum of a 50 percent match in order to receive a grant
- Eligible recipients need to procure airline services through a competitive sealed proposal process, in accordance with New Mexico procurement Code

As part of the program, communities are encouraged to work together to develop a partnership to pursue improved airline service. Several consortiums of airports worked together and received state funding to help improve air service. Most of the partnerships have had limited success and are discussed below.

Taos and Los Alamos partnered to obtain service from Rio Grande Air, based in Taos. Taos was without service for 13 years before local community officials, including the mayor, decided to make air service a top priority for economic development. Rio Grande Air uses 9-seat Cessna single-engine aircraft. The state awarded a \$100,000 grant to the carrier in January 2000; this grant was matched by the Town of Taos, the Village of Taos Ski Valley, and the County of Los Alamos. The purpose of the match was to provide continuing service to Albuquerque. An additional grant of \$79,000 was awarded to begin service to Durango. Service to Los Alamos was discontinued in February 2001 due to low ridership.

Taos also partnered with Ruidoso to get state funding to help fund service between Taos, Ruidoso, and Albuquerque on Rio Grande Air. Ruidoso did not have air service prior to the entrance of Rio Grande Air. In October 2001, the consortium was awarded a \$190,000 state grant. Ruidoso provided \$150,000 in matching funds, while Taos and the Village of Taos Ski Valley provided an additional \$50,000. The consortium was also awarded a US DOT Small Community Air Service Development Pilot Program grant. This grant helped to subsidize the existing Rio Grande Air service and was used to provide extensive marketing within the communities to increase enplanements. Ruidoso later pulled out of the consortium because it felt the community would be better served with nonstop service to El Paso instead of Albuquerque. The subsidy amount of the grant, \$500,000 for both communities, did not cover service between Ruidoso and El Paso. Rio Grande Air discontinued all service to Ruidoso in May 2002. Taos received the entire US DOT grant and state matching funds of \$200,000. Taos also contributed \$200,000 to the implementation of the program.

As of the summer of 2003, Rio Grande Air continued to provide service between Albuquerque and Taos and Albuquerque and Alamogordo. Annual enplanements at Taos, the only airport with continuous service over the last few years, have remained relatively unchanged, showing little growth or decline. According to a GAO report, Rio Grande Air had difficulty sustaining air service without operating subsidies. The GAO report cited several problems Rio Grande Air had including not being included in the reservation system used by travel agents, not being included on travel websites, and having limited codesharing abilities.

A consortium of New Mexico airports in the southeastern part of state also used state funding to increase air service. Carlsbad, Hobbs (Lea County), and Roswell joined together to seek additional service to one or more hub airports within a 500-mile radius of the communities. Each of the communities had nonstop service on Mesa Airlines to Albuquerque already in place. Using \$200,000 in state funding and \$300,000 in local matching funding, these airports solicited carriers to provide new service. Only one carrier,



Big Sky, responded to the request and in October 2000, Big Sky provided service between the three communities and Denver and Dallas on 19-seat Metro aircraft. Three months after the service was initiated, Big Sky exhausted the \$500,000 in state and local funding and sought additional funding from the communities. Roswell and Carlsbad did not provide further funding because they felt the service was unreliable, with one-third of the flights cancelled due to weather or mechanical reasons. Service to these communities was discontinued in March 2001. Although Hobbs continued to pay Big Sky \$35,000 a month in subsidy, the funding eventually ran out and Big Sky discontinued service to Hobbs in January 2002.

In 2005, Gallup joined Las Cruces and Taos in a consortium to bring Westward Airways to New Mexico. Each city contributed \$200,000 in order to qualify for a matching \$600,000 grant from the New Mexico Aviation Division. An additional \$1.4 million was also obtained from the Small Community Air Service Development Pilot Program. The service began in December 2004; however, was discontinued in July 2005 when Westward Airways filed for bankruptcy.

In 2007, the state legislation extended the sunset on the Air Service Assistance Program through 2012. This extension provides an additional \$800,000 each year to start new or enhance existing air service to small communities. New Mexico Airlines was founded by Hawaii-based Pacific Wings to operate flights in New Mexico after the airline was awarded an Essential Air Service contract to serve Hobbs and Carlsbad. The airline started flights on July 1, 2007, and with the help of state funding, also serves Santa Fe, Roswell, Alamogordo, Taos, and Ruidoso with a fleet of Cessna Grand Caravan aircraft. The carrier provides service to Albuquerque, El Paso, Midland-Odessa. The airline is also proposing service to Los Alamos, Deming, and Lubbock, Texas.

Washington and Oregon: Northwest Region Air Service Initiative

A consortium of Washington and Oregon communities called the Northwest Regional Air Service Initiative was awarded an \$180,000 US DOT SCASDP grant to help improve scheduled airline service in the region. The consortium is led by the Washington and Oregon Aviation Divisions and the Washington and Oregon Airport Management Associations. The group recognized that small communities in Washington and Oregon shared challenges in struggling to improve their air service. Northwest communities are limited to only a handful of airlines providing service in the region, and are all tied in to the airline hubs in Seattle and Portland. The grant consisted of the development of:

- An air service enhancement “toolkit” that any community can use to identify reasonable air service expectations and recommendations on developing community support that would attract airlines,
- A community-specific analysis of air service markets, aircraft, and routes for the communities that complete the “toolkit,
- Strategies of how to improve air service to the participating communities in the region.



Wyoming: Air Service Financial Aid Act

Noting the importance of commercial air service to future economic development in the state, the State of Wyoming wanted to stop declining levels of air service and enplanements at airports in Wyoming. The Wyoming Legislature enacted the Wyoming Air Services Financial Aid Act in March 2003. Under the Act, \$3 million was appropriated to the Wyoming Business Council to enhance air service. The Wyoming Business Council was given the responsibility to contract with air carrier(s) to increase air service levels and/or to lower airfares. Using financial incentives, the state hoped to increase enplanements at Wyoming airports. An additional \$3 million was appropriated in 2005 and the Wyoming Aeronautics Commission was granted the authority to administer these funds. In 2007, this bill was again reauthorized.

In August 2005, the Wyoming Consortium, consisting of all the commercial service airports, was one of the 37 grant recipients from the US DOT's 2005 Small Community Air Service Development Program. Coupled with the negative perceptions of its existing air service, high airfares, and declining levels of acceptable service, the Wyoming Department of Transportation and its 10 commercial service airports developed a strategic marketing plan aimed at specific segments in its passenger market. With federal funds (\$800,000) and state funds (\$3,225,000) appropriated and public-private partnership resources, Wyoming airports are aggressively marketing air service to the following groups:

- Their domestic and international tourists
- Energy-related business travelers
- Native American-related business travelers
- Air travels in the state's retired population

Wyoming's program is focused on consistent short-term objectives which include widespread and diverse media and internet advertising to reach targeted travelers. This effort is being supported with a new, collective branding approach. Since the program is still on-going, it is not possible at this time to measure its relative success.